

SPECIAL PROCEDURES FOR TARGETED REPETITIVE LOSS PROPERTIES

I. GENERAL DESCRIPTION

The primary objective of the repetitive loss properties strategy is to eliminate or reduce the damage to property and the disruption to life caused by repeated flooding. A target group of approximately 11,000 repetitive loss properties' policies has been transferred to the NFIP Servicing Agent's Special Direct Facility (SDF).

The close supervision the SDF provides the group of policies and the attention the group of properties receives when mitigation decisions are made contribute to attaining the strategy's primary objective. The target group consists of any NFIP insured property that has met at least one of the following paid flood loss criteria since 1978, regardless of ownership:

1. Four or more paid losses of more than \$1,000 each; or
2. Two losses within a 10-year period that, in the aggregate, equal or exceed the current value of the insured property; or
3. Three or more losses that, in the aggregate, equal or exceed the current value of the insured property.

The loss history includes all ownership of the property since 1978 or since the building's construction if built after 1978.

Target group policies with renewal dates of August 1, 2000, and later will be afforded coverage (new business or renewal) only through the SDF.

The agent of record will remain in that capacity while the policy is in the SDF. The NFIP Servicing Agent will pay the agent of record the standard 15 percent commission that is paid on all NFIP Direct business.

II. NOTIFICATION REQUIREMENTS

The first full year of policy transfers to the SDF was completed on July 31, 2001. More policies will be transferred to the SDF as additional properties meet one of the loss criteria. As appeals are successful and FEMA or its designee approves properties for mitigation, policies will be transferred out of the SDF.

When policies are to be transferred to the SDF, the NFIP Bureau and Statistical Agent will notify WYO companies and the NFIP Servicing Agent at least 150 days prior to the expiration date. The companies will notify the affected policyholders and their agents 90 days before expiration of the policy. This notice will explain that the policies are ineligible for coverage outside of the SDF. (See agent and policyholder notification letters, pages RL 2-5.) Offers to renew will be issued by the SDF approximately 45 days prior to the expiration date.

III. DISPUTE RESOLUTION

When a policyholder has documentation that the NFIP-insured property has not sustained the losses reported by the NFIP Bureau and Statistical Agent, an appeal may be presented, **in writing**, to the SDF. All documentation to substantiate the appeal should be included with the appeal letter. The policy will remain in the SDF until the appeal is settled.

The policyholder and agent will be notified of the results of the appeal. If the policyholder's appeal is successful, the SDF policy will be cancelled and the full premium will be returned to the former carrier. The carrier will write the policy using the SDF's effective dates. If, however, a loss occurs both in the current term and before the policy can be returned to the former carrier, the SDF will continue to service the claim and will return the policy at the next renewal cycle.

IV. MITIGATION

Outside of the appeal process, when mitigation efforts (other than buyout or demolition) such as elevation, relocation, or other approved mitigation efforts are approved by FEMA, the property will be removed from the SDF and the target group at the next renewal.

If the property is bought out or demolished according to an approved FEMA mitigation project, and the efforts for the specific property are FEMA approved, the policy will be cancelled, returning the pro-rata premium (less Federal Policy Fee and, if applicable, Probation Surcharge). When a property is bought out or demolished, any commission chargeback to the agent will be forgiven.



FEMA

IMPORTANT FLOOD INSURANCE POLICY INFORMATION

Dear Agent:

Your client's property, which is covered by flood insurance, is one of about 11,000 properties nationwide that have experienced repetitive flood losses under the National Flood Insurance Program (NFIP).

You and your client know first-hand the disruption to life and property that flooding can cause. The Federal Emergency Management Agency (FEMA) is taking steps to control costs for repetitive loss properties, such as your client's, and to provide assistance in reducing future flood losses. We have identified certain properties, such as your client's, as being Repetitive Loss Properties. These properties are defined as meeting one of the following criteria based on paid flood losses since 1978, regardless of ownership:

1. Four or more losses of more than \$1,000 each.
2. Two losses in a 10-year period that, in the aggregate, equal or exceed the current value of the insured property.
3. Three or more losses that, in the aggregate, equal or exceed the current value of the insured property.

If there are multiple losses at the same location within 10 days of each other, they are counted as one loss, with the payment amounts added together.

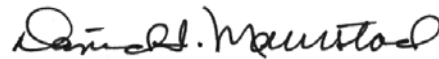
Our strategy for reducing flood losses involves centralizing the processing of all flood insurance policies of this select group of repetitive flood loss buildings so we can verify our underwriting and loss information and collect information about the flood risk to your client's property. We are working with States and local communities to identify the most effective ways to minimize future losses to the property owner, as well as to us as the insurer. Our strategy will be carried out in the following way:

- Since August 2000, insurance companies that write flood insurance under the NFIP have been assigning all flood insurance policies for the select group of repetitive loss properties upon renewal to a centralized processing center operated by the NFIP's Servicing Agent. We call this center the Special Direct Facility (SDF).
- Even though your client's policy will not be processed by the chosen Write Your Own company or by the traditional NFIP Direct program, you will continue as the agent of record throughout the process. While the policy remains in the SDF, you will receive the same 15 percent commission that NFIP Direct agents receive.
- About 45 days prior to the renewal date of this policy, your client will receive a premium bill from the NFIP Servicing Agent's SDF. **This is the only bill that should be paid.**

- For the time being, the SDF will be the only source for NFIP flood insurance coverage available to your client to insure this property. As always, the full premium amount and any related fees should be paid. The policy that will be sent to your client will meet all the requirements of any mortgage company to the same extent as the current policy.
- We have encouraged your client to continue to contact you directly for any service needs on the policy since you continue to be the policy's agent of record.
- FEMA is working at the Federal level and with State governments to reduce the losses experienced by repetitively flooded properties. The States will be examining innovative strategies to deal with repetitive loss problems in local communities. We encourage your client to work with the local community in this process.
- We provide an appeal procedure for your client to follow if he or she believes that we have incorrectly included the insured property on our select list of repetitive loss properties.

Our goal is to reduce the devastating effects of repetitive flood losses on us all as property owners and as taxpayers. Please call the NFIP Servicing Agent's Special Direct Facility at 1-800-638-6620 if you have any questions regarding this letter and the repetitive loss properties strategy, or visit our web site at www.fema.gov/nfip for more information.

Sincerely,



David I. Maurstad
Acting Director
Mitigation Division
Emergency Preparedness and Response Directorate



FEMA

IMPORTANT FLOOD INSURANCE POLICY INFORMATION

Dear Policyholder:

The property covered by your flood insurance policy is one of about 11,000 properties nationwide that have experienced repetitive flood losses under the National Flood Insurance Program (NFIP).

As the owner of one of those properties, you know first-hand the disruption to life and property that flooding can cause. The Federal Emergency Management Agency (FEMA) is taking steps to control costs for repetitive loss properties, such as yours, and to assist you in reducing future flood losses. We have identified certain properties, such as yours, as being Repetitive Loss Properties. These properties are defined as meeting one of the following criteria based on paid flood losses since 1978, regardless of ownership:

1. Four or more losses of more than \$1,000 each.
2. Two losses in a 10-year period that, in the aggregate, equal or exceed the current value of the insured property.
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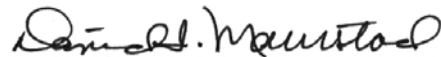
Our strategy for reducing flood losses involves centralizing the processing of all flood insurance policies of this select group of repetitive flood loss buildings so we can verify our underwriting and loss information and collect information about your property's flood risk. We are working with States and local communities to identify the most effective ways to minimize future losses to you as the property owner, as well as to us as the insurer. Our strategy will be carried out in the following way:

- Since August 2000, insurance companies that write flood insurance under the NFIP have been assigning all flood insurance policies for repetitive loss properties upon renewal to a centralized processing center operated by the NFIP's Servicing Agent. We call this center the Special Direct Facility (SDF).
- About 45 days prior to the renewal date of this policy, you will receive a premium bill from the NFIP Servicing Agent's SDF. **This is the only bill that should be paid.**
- For the time being, the SDF will be the only source for NFIP flood insurance coverage available to you to insure this property. As always, the full premium amount and any related fees should be paid. The policy that will be sent to you will meet all the requirements of any mortgage company to the same extent as the current policy.

- Your insurance agent will continue to provide you with customer service on your flood insurance policy, and you should continue to contact your agent directly for any service needs.
- FEMA is working at the Federal level and with State governments to reduce the losses experienced by repetitively flooded properties. The States will be examining innovative strategies to deal with repetitive loss problems in local communities. We encourage you to work with your local community in this process.
- We provide an appeal procedure for you to follow if you believe that we have incorrectly included your property on our select list of repetitive loss properties.

Our goal is to reduce the devastating effects of repetitive flood losses on us all as property owners and as taxpayers. Please call the NFIP Servicing Agent's Special Direct Facility at 1-800-638-6620 if you have any questions regarding this letter and the repetitive loss properties strategy, or visit our web site at www.fema.gov/nfip for more information.

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